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**IN THE HIGH COURT OF PUNJAB AND HARYANA AT CHANDIGARH**

**I.T.R.No.93 of 1999**
**Date of decision:2.11.2006**

**Commissioner of Income Tax (Central), Ludhiana**

**...Petitioner**

**Versus**

**M/S Oswal Woollen Mills Ltd.,Ludhiana**

**...Respondent**

**CORAM: HON'BLE MR.JUSTICE ADARSH KUMAR GOEL**
**HON'BLE MR.JUSTICE RAJESH BINDAL**

Present: Mr.S.K.Garg Narwana, Advocate for the Appellant.

Mr.Sanjay Bansal, Advocate for the respondent.

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**JUDGMENT**

Following question of law has been referred for opinion of this Court by the Income Tax Appellate Tribunal, Chandigarh Bench, Chandigarh arising out of its order dated 22.11.1995 passed in I.T.A.No.1469/Chandi/1990, in respect of the assessment year 1987-88.

> "Whether on the facts and in the circumstance of the case, the Income Tax Appellate Tribunal was right in law in deleting the addition of Rs.1,58,205/- made on account of undervaluation of closing stock of work-in-progress completely disregarding that the value of such stocks declared by the assessee was only of raw-material without accounting for expenses on stores, chemicals, fuel and other proceedings and that the value worked out by the Assessing Officer was based upon the law laid

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down by the Supreme Court (188 ITR 44)?"

The assessee deals in the manufacture and sale of vegetable ghee and refined oil. For the assessment year 1987-88, the Assessing Officer made addition of Rs.1,58,205/- by rejecting valuation of stock-in-process in closing stock of three units. This was upheld by the C.I.T.(A).

The Tribunal set aside the view taken and held that the Assessing Officer had not given any logical basis for not accepting the valuation of closing stock-in-process. It was further observed that if the Assessing Officer objected to the valuation of the closing stock, he should have also objected to opening of the stock on the same basis, which was not done. It was held in the circumstances disturbing the closing stock valuation of the work-in-progress was not justified.

Learned counsel for the Revenue submits that the assessee had under valued the closing stock of work-in-progress in as much as value of stock declared by the assessee was only of raw-material, without accounting for expenses on stores, chemicals, fuel and other items, which was in violation of law laid down by the Hon'ble Supreme Court in **Commissioner of Income-Tax** Vs. **British Paints India Ltd., (1991) 188 ITR, 44.**

Learned counsel for the assessee supported the view taken by the Tribunal and submitted that the order of the Tribunal was consistent with the view taken by the Hon'ble Supreme Court in **British Paints India Ltd.'s** case (supra). Though in appropriate case, it may be open to the Assessing Officer to question the method of accountancy applied by the assessee but that could be done only if the method applied by the assessee did not truly disclose the picture of income derived. In the present case the assessee applied the same principle for valuation of the opening stock, which was applied for valuation of the closing stock and further the same method was being applied consistently even in all subsequent years. In such a situation, the Tribunal was justified in holding that the accounts of

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the assessee disclosed true picture of profits derived and the accounts of the assessee could not be rejected by applying the principle laid down in **British Paints India Ltd.'s** case (supra).

Learned counsel for the assessee also relied upon the judgments of the Hon'ble Supreme Court in **Investment Ltd.** Vs. **Commissioner of Income Tax, Calcutta**, **(1970) 77 ITR 533, Karnani Properties Ltd.** Vs. **Commissioner of Income-Tax, West Bengal**, **(1971) 82 ITR 547** and judgment of this Court in **Commissioner of Income Tax** Vs. **Sant Ram Mangat Ram, (2005) 275 ITR 312**, which reiterate the principles which have been laid down in **British Paints India Ltd.'s** case (supra).

In view of the above, we are of the view that the Tribunal correctly applied the principle of law for setting aside the addition made on the ground of under valuation of closing stock of work-in-progress.

The question referred is thus answered against the Revenue and in favour of the assessee.

The reference is disposed of.

**(Adarsh Kumar Goel)**
**Judge**

**November 3, 2006** **(Rajesh Bindal)**
**Pka** **Judge**